

Trends in Personal Income

Personal income has more than doubled since 1960 and its composition has changed substantially. This article reviews developments that have affected the composition of personal income over the last decade.

PERSONAL income has more than doubled since 1960 to reach a seasonally adjusted annual rate of \$851½ billion during the first 9 months of 1971. During this period the composition of personal income has been fundamentally altered. Perhaps the most striking change since 1960 has been the enormous growth in transfer payments to persons which, to a considerable extent, has reflected a heightened consciousness of social and welfare responsibilities in the United States. As a consequence of the increase in transfers, personal income has grown faster than GNP in every year since 1966. This review highlights developments that have affected the composition of personal income over the last decade. The period since 1960 is divided into three subperiods: the gradual and sustained economic expansion from 1960-65; the years of excess demand and inflation, 1965-69; and the slowdown since 1969.

Transfer payments

Transfers to persons consist of income received by persons for which no productive services are currently rendered. Transfers have increased dramatically since the mid-1960's (chart 7). They grew at an average annual rate of 7 percent in the first half of the 1960's, 13 percent from 1965 to 1969, and 19 percent in 1970 and 1971.

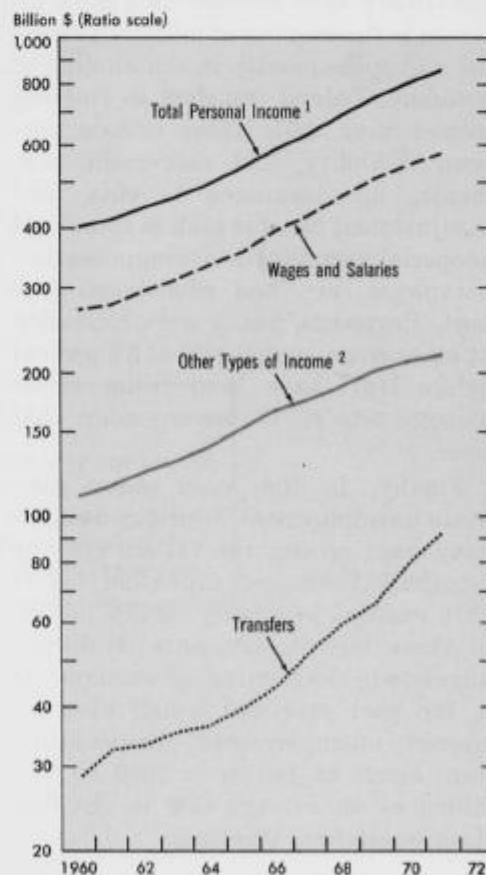
Nearly all the acceleration reflects increased payments from government. Transfers from business (e.g., corporate gifts to nonprofit institutions), represent a very small part of the total. Both Federal and State and local governments have shown similar rates of increase in their transfer payments (table 1). However, much of the increase at the State and local level reflects increases in Federal grants-in-aid to the States in support of special types of public assistance.

As noted above, some of the most visible increases in transfer payments since the mid-1960's have reflected an increased social and welfare awareness, which has led to the introduction of new and the expansion of old programs involving these payments. Payments under old-age, survivors, and disability insurance, which in dollar amounts represent the largest Federal transfer, recorded substantial, although erratic, growth throughout the 1960's. In 1966, social insurance was significantly expanded to include medicare (hospital and medical insurance). The first full year of operation was 1967, and payments under this program accelerated sharply thereafter until 1969 when growth began to taper. In addition, public assistance transfers, which include certain types of old-age assistance, aid to the blind, to the permanently and totally disabled, and to families with dependent children (AFDC), have also grown strongly, particularly in recent years. The largest public assistance transfer is AFDC. This program is administered by the States, with more than 50 percent of the outlays currently financed by Federal grants-in-aid. AFDC has ex-

perienced enormous growth in recent years, and the number of persons under the program has more than tripled since 1960 to almost 10 million in 1970. An acceleration in the roster of recipients beginning in 1967 explains most

CHART 7

Personal Income



1. Net of personal contributions for social insurance.

2. Other labor income, interest, rent, dividends, and proprietors' income.

NOTE.—Data plotted for 1971 are 9-month averages, seasonally adjusted at annual rates.

Table 1.—Government Transfer Payments to Persons

	Annual average			Annual average rates of change		
	(Billions of dollars)			(Percent)		
	1960-65	1966-68	1969-70	1960-65	1966-68	1969-70
Total government transfer payments to persons.....	32.1	45.6	58.9	7.4	13.5	21.5
Federal government.....	26.2	39.8	55.5	7.2	13.5	21.4
Old-age, survivors, disability insurance benefits.....	14.5	21.8	28.9	10.3	10.0	15.0
Medicare.....	2.0	3.7	5.8	21.2	7.8	7.8
State unemployment insurance.....	2.0	2.0	3.0	-2.1	-4.4	55.7
Railroad employee benefits.....	1.2	1.4	1.8	1.1	7.6	18.8
Federal civilian pensions.....	1.3	2.1	2.8	16.8	14.9	16.4
Veteran and military benefits.....	5.7	7.2	9.5	3.7	0.8	16.7
Other.....	.0	1.5	2.5	27.6	21.2	61.0
State and local government.....	6.4	8.8	13.1	6.2	14.4	22.9
Social insurance benefits.....	1.9	3.0	4.9	8.9	12.2	13.2
Direct relief.....	3.0	5.0	7.3	4.8	13.4	27.3
Aid to families with dependent children.....	1.3	2.9	4.2	12.4	21.8	40.9
Other.....	.4	.0	1.6	5.0	24.1	21.4

1. Does not include change from 1955 to 1957 which reflects the program's introduction.

Source: U.S. Department of Commerce, Office of Business Economics.

of the rapid advance in money payments under this program.

Another part of the transfer expansion is associated with our increased involvement in the Vietnam war in the mid-1960's that resulted in a large increase in the number of military personnel and subsequently in the number of veterans. Federal transfers to veterans surged after 1967. These include pension, disability, and retirement payments, life insurance benefits, and readjustment benefits such as those paid as special unemployment compensation, paraplegic care, and educational support. Payments, which were increasing at an average annual rate of 3½ percent before 1967, have been rising at an average rate of 13 percent since that time.

Finally, in the most recent past, State unemployment insurance benefits have been among the fastest growing transfers. Economic expansion before 1970 resulted in a fairly steady decline in these benefit payments. However, increases in the numbers of unemployed in the past year and a half have increased unemployment compensation from about \$2 billion in 1969 to \$5.8 billion at an average rate in the first three quarters of this year.

Wages and salaries

Payrolls are the largest component of personal income. Wages and salaries in all broad industry groups grew at a fairly steady pace in the early 1960's,

accelerated sharply in the 1965-69 period, and decelerated after that time. The acceleration of wage and salary increases in the period of strong expansion affected all industry groups similarly, but this has not been true of the period of deceleration (table 2).

The commodity-producing industries, which typically account for two-fifths of all wage and salary disbursements, were hardest hit by the recent weakness in economic activity. From 1969 to 1971 their payroll growth slowed to an average annual rate of 2 percent, and within commodity production, manufacturing wages and salaries were up only 1 percent. During this period, rates of pay in manufacturing continued to advance, but hours of work and employment, especially in durable goods industries, declined sharply. Wage and salary increases in other

commodity goods industries (mining, contract construction, and agriculture) have also slowed, but not as much as in manufacturing. Employment declines in nonmanufacturing commodity production were generally mild, and hourly rates of pay were bolstered by extraordinarily large increases in contract construction.

Growth of payrolls in the distributive industries (transportation, communications, utilities, and wholesale and retail trades) was roughly commensurate with that in commodity production until 1969. Since that time, payroll increases in the distributive industries have slowed, but because employment adjustments in these industries were relatively mild, the slowdown was not nearly as severe as in the commodity-producing group.

Government wages and salaries have been consistently growing more rapidly than those in commodity production and in distribution. Federal Government employment increases in the mid-1960's were associated in large part with the military buildup which continued through 1968. However, since that year and as a result of defense cutbacks and restrictive hiring policies, Federal employment declined. This, of course, resulted in a significant slowdown in the growth of Federal payrolls which would have been even more striking had it not been for sizable civilian and military pay raises. Employment and rates of pay have increased steadily at the State and local level, and payrolls have shown very strong growth since the early 1960's.

In the service industries, wage and salary increases have also been strong and broadly based. The rate of payroll advance in medical and health services increased steadily after 1960 and contributed importantly to total growth in service industry payrolls. After 1968, increases in annual earnings accounted for most of the growth in medical and health payrolls as employment expansion slowed. Wages and salaries in educational services also have been growing since 1960; the rates of increase were highest in the 1965-69 period and have slowed some since. Most of the service industries did not feel as much

Table 2.—Wages and Salaries

	Average annual rates of change		
	1960-68	1969-70	1971*
Total personal income.....	6.1	8.7	6.0
Wages and salaries.....	5.8	9.2	5.5
All commodity.....	5.3	8.1	2.9
Manufacturing.....	5.2	8.1	1.1
Distributive.....	6.0	8.4	7.2
Government.....	7.3	10.7	8.7
Services.....	7.0	10.0	9.2

*Figures for 1971 are the averages of three quarters at seasonally adjusted annual rates.

Source: U.S. Department of Commerce, Office of Business Economics.

of the impact of the recent economic slowdown as other industry groups. However, payrolls declined 14 percent for security and commodity brokers. This, of course, was due to the poor performance in the stock and bond markets which resulted in declining earnings and major layoffs in this industry.

Other types of income

Other types of income generated by current production include rent, interest, proprietors' income, dividends, and other labor income. In the aggregate, these incomes were recording about the same rate of growth as personal income until 1965, but since that time, increases

have slowed noticeably (chart 7). An important reason for the slowdown in the aggregate of "other types of income" was the sharp tapering in the growth of proprietors' income after the mid-1960's and the absence of growth after 1969. Farm income, which is highly erratic, has been a particularly weak component of proprietors' income; on balance it grew slowly in the early 1960's and has shown virtually no growth since 1965. Business and professional income has shown much greater strength than farm income since 1960, but in the recent past its rate of growth has tapered. This type of business is typically hard hit by weakness in economic activity, and recent experience appears to have provided no exception.

In contrast, "other labor income" has

been growing strongly. By far the most important component of "other labor income" is employer contributions to private pension, health, and welfare funds. These payments, which are an attractive form of compensation to employees because they are not taxable when earned, have become an increasingly important part of employee compensation and have developed into a major bargaining issue in labor negotiations.

The remaining components of "other types of income," (rent, interest, and dividends) as a group, did not exhibit behavior much different from total personal income before 1965, but due to slow growth in rental income to persons and dividends their advance slowed somewhat after the mid-1960's.

Errata

The adjusted series under Federal surplus or deficit shown in table 3 of the article "Economic Impact of Defense Procurement" in the September *SURVEY* is incorrect for the first quarter 1971. The adjusted series —\$14.2 billion should have been —\$15.8. Consequently, the change in the adjusted series should be \$2.8 billion instead of \$4.4 billion in the first quarter of 1971 and —\$5.5 billion instead of —\$7.1 billion in the second.